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AUTHOR Pearce, Alan .
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ABSTRACT

Action for Children's Television (ACT) has petitioned the Federal Communications Commission (FCC) that networks be allowed to schedule no commercials on children's programs and also that networks schedule programs directed toward specific children's age groups. An analysis of network revenues from children's programs shows that networks could still make a substantial profit if seven commercial minutes, rather than the present eight, were allowed, and that they could probably still make profit if they presented age-specific programs. Included in the analysis are an explanation of how program ratings determine advertising rates, a list of the major advertisers on children's television and the extent of their financial support of network children's shows, the revenues for network children's shows in 1970 and the ratings of those shows in Fall 1971. (JK)

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The Economics of Network Children's Television Programming

A report by Alan Pearce

This report was prepared for consideration in the proceeding on children's television. Any views or conclusions in the report are those of the author and do not, in any way, represent FCC views or conclusions that may be reached in the Inquiry.

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The purposes of this presentation are:

1. To give a brief outline of a basic economic law governing the broadcast industry.
2. To list the major advertisers in children's programming and the extent of their financial support of network children's shows.
3. To outline the costs and revenues of children's programming.
4. To explore the financial impact on the networks of a reduction of commercial time in children's weekend programming.
5. To examine the broad economic implications to the networks of the ACT petition on children's programming.

1. BROADCAST ECONOMICS

In the broadcasting business, ratings determine revenues. The bigger a network's audience, the more it can charge for the time it sells to advertisers. From an advertiser's point of view, what matters is the size of the audience watching the program surrounding the commercial minutes. The ratings points, which express the absolute numbers of television homes tuned in to a particular program, are, in effect, the only way broadcasters have yet figured out to price their merchandise, which is the time the public spends watching television. The demographic make-up of the audience has begun to play a more important role in the pricing mechanism of television commercials, but generally speaking, ratings still determine revenues.

Audience measurement ratings equate with circulation (or readership) in the print media, with one important economic difference. This difference concerns unit costs--copies of newspapers or magazines in the print media, and numbers of homes tuned in to a program in broadcasting.

If a newspaper publisher has a newspaper operation that costs \$1 million a day, with a daily circulation of 1 million and advertising revenue of \$500,000 daily, he has to sell his newspapers for 50 cents each in order to break even. If his circulation increases to 2 million copies a day and his advertising revenue doubles to \$1 million, he might still have to charge a high price per copy because some of his costs increase. He might need more presses, more metal for type, and more ink; more pages to carry his advertising which means higher newsprint costs, and possibly more labor to handle the extra circulation and advertising; or even more vehicles and manpower to handle distribution of his product. In fact, if a newspaper or magazine becomes really popular, and if advertising revenue does not keep pace because the readership is not attractive to advertisers, then unit costs may actually begin to rise and this can result in uneconomic publishing. This was part of the reason for the deaths of The Saturday Evening Post and Look.

The broadcasting industry, on the other hand, is not beset by the threat of increases in per unit costs; indeed the reverse is true, for as more people or more homes watch or listen to a program, per unit costs fall quite dramatically. If a broadcaster has a product--a children's television special for example--that costs \$1 million to produce and sell at a profit, and he has an audience of a million households, it costs him \$1 for each household in the audience and he attempts to fix the rates for his commercial minutes accordingly. If the audience for the show

increases to 2 million households, the unit cost become only 50 cents and so on. The broadcaster, like the newspaper or magazine owner, can charge more for his commercial minutes because he is offering a larger audience to the advertisers, but unlike his competitors in the print media, the broadcaster's unit costs always fall once break even point has been reached. (This is not to say, of course, that overall costs decline; in fact, overall production costs on most television shows have been rising at an average of 8 percent a year).

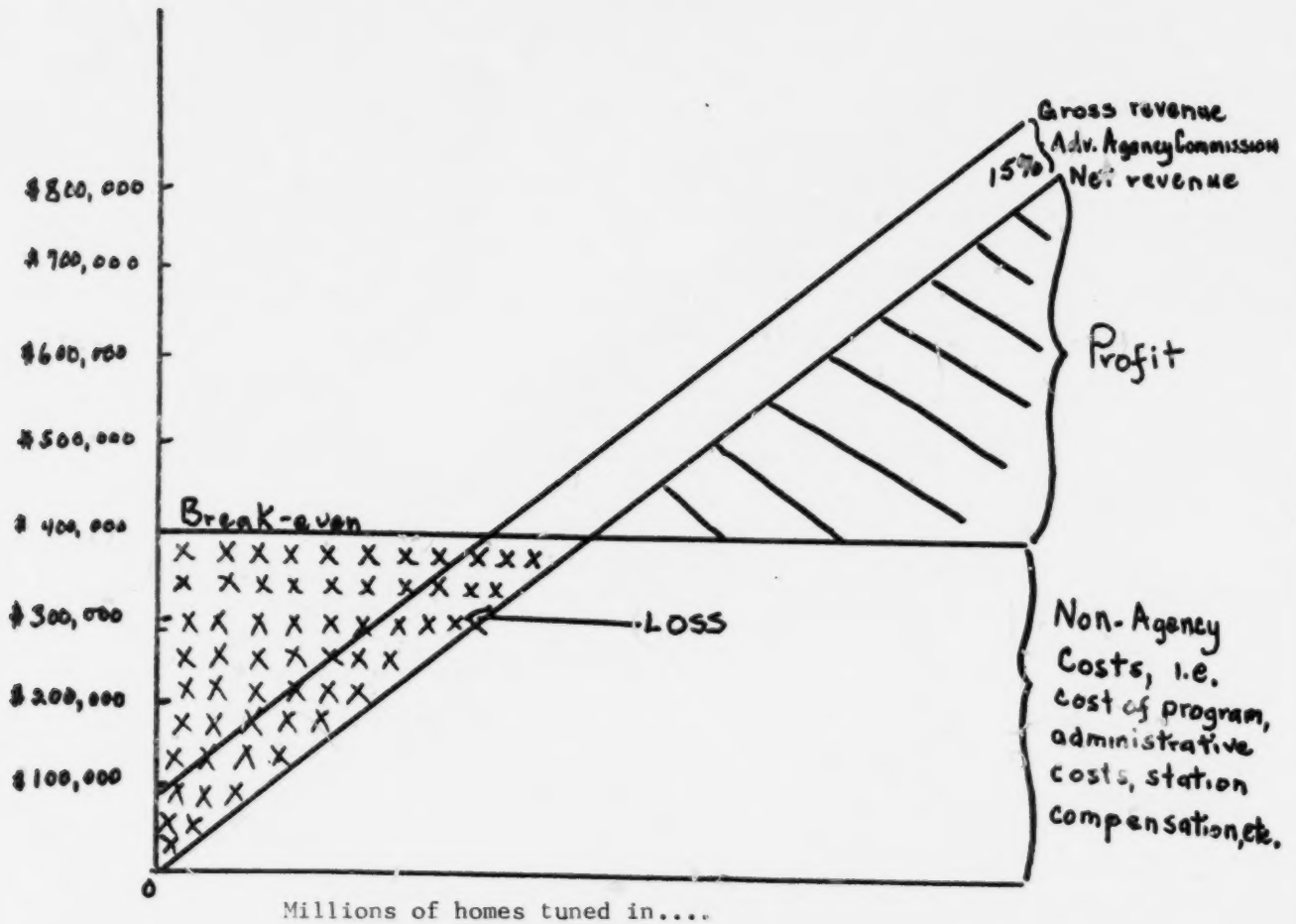
The above is only given as a simple example, of course, but it shows why the broadcasting industry can make a lot of money when audience size increases. The bigger the audience in broadcasting, the higher the advertising rates, the smaller the per unit costs, and the bigger the profit per program. This is why the broadcasting business is tied very much to numbers--number of homes with television sets turned on, numbers of people watching or listening.

To put the above more scientifically:

1. Volatility--A small percentage increase in price (resulting from or following an improvement in ratings) causes a large percentage improvement in profits. This profit is usually around 85 cents on every dollar--the 15 cents being paid to advertising agencies as commission.
2. Profit Effect--After break-even point has been reached, 85 percent of the additional revenue falls to the bottom line as profit. Conversely, to the extent that break-even point is not achieved, 100 percent of the revenue shortage is reflected in a bottom line loss.

In other words, the broadcasting industry presents great opportunities for windfall profits if a program earns ratings popularity, or it can result in great losses if a program is un-

All of this can be expressed graphically:



STRUCTURE OF TELEVISION BROADCASTING

In order to put the system of network television into perspective for the purposes of this study, the following chart might prove helpful:

THE TELEVISION NETWORKS

<u>Parent Company</u>	American Broadcasting Companies (includes United Paramount Theatres)	Columbia Broadcasting System	Radio Corporation of America (RCA)
<u>Subsidiary</u>			National Broadcasting Company
<u>Network</u>	ABC Television Network	CBS Television Network	NBC Television Network
<u>O & O's</u> (5 VHF)			
Cleveland			WKYC-tv
Chicago	WLS-tv	WBBM-tv	WMAQ-tv
Detroit	WXYZ-tv		
Los Angeles	KABC-tv	KNXT-tv	KNBC-tv
New York	WABC-tv	WCBS-tv	WNBC-tv
Philadelphia		WCAU-tv	
St. Louis		KMOX-tv	
San Francisco	KGO-tv		
Washington, D.C.			WRC-tv
<u>Number of Affiliates</u> (1971)	168 primary 118 secondary*	192 primary 3 also available	219
<u>Number of Commercial Independents</u> (1971 Estimate)	29 VHF 48 UHF		

* A secondary affiliate carries less programming than a primary affiliate and might also have an affiliation with another network. Consequently, there is double counting of affiliates. All told, there are about 600 affiliates.

2. ADVERTISERS IN NETWORK CHILDREN'S PROGRAMS

According to Broadcast Advertisers Reports, an estimated \$74,664,400 was spent by advertisers in 1970 on network weekend children's television shows. This was divided among the networks as follows:

ABC Television Network: \$20,206,300, or 27.06 percent of the total;
CBS Television Network: \$39,873,400, or 53.41 percent of the total;
NBC Television Network: \$14,579,700, or 19.52 percent of the total.

The three leading advertisers in network children's television programs--Kellogg, Mattel, and General Mills--account for almost 30 percent of total revenues from children's shows:

Kellogg Company, which spent a total of \$8,902,800 on network weekend children's shows in 1970. Nearly 62 percent of this, or over \$5½ million, was spent with CBS; about 38 percent, or roughly \$3½ million, was spent with NBC; and less than 1½ percent, or \$125,000, was spent with ABC.

Mattel Inc., which spent a total of \$7,837,200 in network weekend children's programs in 1970. A little over 65 percent of this, or nearly \$5,100,000, went to CBS; 18 percent, or just over \$1.4 million, went to ABC; and nearly 17 percent, or roughly \$1.3 million, went to NBC.

General Mills Inc., which spent \$7,097,500 on network weekend children's programs in 1970. Over 65 percent of this, almost \$5,100,000, was spent with the CBS Network; over 25 percent, or \$1.8 million, with ABC; and nearly 9 percent, or \$634,000, with NBC.

The next five advertisers in children's weekend programs on the networks--General Foods Corporation, DeLuxe Topper Toys, Quaker Oats, Miles Laboratories, and Mars--account for a further 25 percent of gross revenues:

<u>Parent Company</u>	<u>Total Est. Revenue (in 000's)</u>	<u>ABC</u>		<u>CBS</u>		<u>NBC</u>	
		<u>Est.</u>	<u>Rev.</u>	<u>Est.</u>	<u>Rev.</u>	<u>Est.</u>	<u>Rev.</u>
General Foods	\$6,034.7	\$1,647.7	27.30	\$4,035.2	66.86	\$ 351.8	
DeLuxe Topper	4,005.1	220.8	5.51	3,210.0	80.14	574.3	1
Quaker Oats	3,782.4	655.9	17.34	2,162.1	57.16	964.4	2
Miles Labs	2,639.0	738.7	27.99	1,332.4	50.48	567.9	2
Mars Inc.	2,275.3	1,237.6	54.39	4.2	.18	1,033.5	4

Source: BAR.

Another 15 companies--Milton Bradley, Bristol-Myers, Ideal Toy, Hasbro, Louis Marx, IT&T, Nabisco, Borden, Nestlé, American Home Products, Pepsico, Campbell Soups, Norton Simon, McDonalds, and Keebler--account for a further 25 percent of gross revenues. These companies spent from \$2,168,900 down to \$721,400 on network children's weekend television in 1970. A further 57 companies accounted for the last 20 percent of gross revenues.

Thus children's programming at the network level is characterized by a situation where relatively few advertisers are competing for commercial space offered by 3 suppliers. As we have seen, the top 3 advertisers account for 30 percent of gross revenue; the top 8 advertisers account for 55 percent; and the top 23 advertisers account for 80 percent of the gross revenue derived from network weekend children's programming.

Children's programming is further characterized by the business nature of the top 23 advertisers (with some overlap because of the diversified nature of some of the companies):

Cereal: Kellogg (\$8.9 million spent on advertising in weekend network children's shows in 1970); General Mills (\$7 million); General Foods (\$6 million); Quaker (\$3.8 million).

Toys: Mattel (\$7.8 million); Deluxe Topper (\$4 million); Milton Bradley (\$2.2 million); Ideal (\$1.75 million); Hasbro (\$1.55 million); Louis Marx (\$1.55 million).

Vitamins/Non-Prescription Drugs. Miles (\$2.6 million); Bristol-Myers (\$1.9 million); American Home Products (\$1 million).

Food/Candy/Beverages: Mars (\$2.3 million); IT&T (\$1.5 million); Nabisco (\$1.3 million); Borden (\$1.25 million); Nestlé (\$1.25 million); Pepsico (\$.9 million); Campbell Soup (\$.85 million); Norton Simon (\$.8 million); McDonalds Corporation (\$.75 million); Keebler (\$.7 million).

NB: General Mills, although listed as a cereal manufacturer, has a substantial interest in toys through its subsidiaries, Kenner Products and Parker Brothers (manufacturers of Monopoly, the world's most popular board game). Quaker, another cereal manufacturer, owns Fisher-Price Toys.

3. COSTS AND REVENUES OF NETWORK CHILDREN'S PROGRAMMING

(a) Costs of Programs: Introduction

Naturally enough, the costs of children's programs vary enormously; Captain Kangaroo, for example, produced by CBS as a weekday program for pre-schoolers from 8-9 a.m. Monday through Friday, has a weekly production budget in the region of \$75,000, or \$15,000 a show. This figure excludes certain development overheads and administrative costs that are sustained by CBS. Show budgets do not normally reflect their shares of top administration salaries, or of the costs of selling the commercial time in the program, or the costs of press and publicity, and other services. These costs are absorbed by the networks producing or presenting the shows, and are eventually deducted from the total profit contribution made by the program departments. We shall return to this question of profit

contribution later. Captain Kangaroo, in fact, is an expensive show for daytime television--The Today Show on NBC cost \$100,000 a week in 1970 and for that NBC was able to provide 10 hours of adult news-magazine type programming. Generally speaking, the cartoon fare that comprises most of what is known as children's weekend television--shows like Scooby-Doo Where Are You?, Sabrina the Teenage Witch, Funky Phantom, and The Pink Panther Meets the Ant and the Ardvark, cost an average of between \$10,000 and \$11,000 per half hour, as compared with \$7,500 for Captain kangaroo. The networks pay \$1,054,000 for 17 original negatives which they buy from the leading suppliers of cartoons; thus each negative costs the network \$62,000, and it is played a total of 6 times over a 2-year period at a cost of just over \$10,000 a showing, before ownership reverts to the cartoon producer for syndication sale. Consequently, each showing costs the network an average of \$10,333, but this does not include editing and reprint costs.

Costs of Program at CTW

Other children's programming is similarly expensive. For example, The Electric Company, produced by Children's Television for Public Television, cost around \$8 million for the first 160 half hour shows. At first glance, this seems to be prohibitively expensive and, as one NBC network executive said, Bonanza, a top rated prime-time adult show, can be bought for less than that. The fact is, however, that the costs of The Electric Company, and other shows that have been described as "quality" children's programs, can be amortized over a great many years. If each episode of

The Electric Company was shown only once, then it would cost \$50,000 per half hour--well below the average cost of \$62,000 per negative for cartoons. But like the cartoons, The Electric Company is shown several times, so if each program is aired at least five times, the actual cost per half hour is only \$10,000. In addition, a program like The Electric Company can be shown to successive generations of children with equal interest, so the final cost per half hour can be reduced substantially. Finally, unlike the networks, CTW includes all of its costs in its program budgets, so The Electric Company includes costs of research and administration, which tend to inflate the overall costs of production. Sesame Street, the other program produced by CTW, costs roughly \$5 million for 160 1-hour shows--an average cost of \$31,250 per hour. Here again, the program costs can be written off over several airings, so that the actual cost is much lower. Incidentally, the reason that The Electric Company is so much more expensive than Sesame Street is because of the use of animation, which costs CTW \$4,000 a minute; the networks, however, pay less for their animation because they buy in bulk and also because they often cut costs on animation by ordering fewer frames per second. Sesame Street uses very little animation, producing jumpy movement.

Costs of Prime-Time Children's Programs

NBC is the only network that regularly programs for children in prime-time with its Wonderful World of Disney on Sunday evenings from 7:30 to 8:30 p.m. The Disney Company has, of course, a long

established record in the field of children's entertainment. The Disney contract with NBC stipulates that the network pays Disney \$250,000 for each of 20 original programs in a season. The rest of the programs that fill the schedule are repeats from previous seasons with a price tag of between \$30,000 and \$40,000 a showing. Usually the network buys about 48 hours of television from Disney over the year--20 originals and 28 repeats, down from 26 originals and 26 repeats a few seasons ago. The change was made for reasons of economy. Disney material, and children's prime-time evening specials, are usually very expensive programs. A National Geographic special costs \$350,000 for an hour, with a \$100,000 fee if the program is repeated by the network--a total cost of \$450,000 for 2 hours of prime-time television. CBS Television Network paid over \$400,000 for a 1-hour special, JT, a dramatic presentation about a Black child.

Costs of Saturday Morning Programs

For the current Saturday morning season, all 3 networks tried to diversify their programming somewhat by introducing something other than cartoons. CBS introduced You Are There, a half-hour which costs \$65,000 for one episode that will be repeated at least once; Children's Film Festival, a 1-hour program which costs \$35,000 for two runs; and In-the-News, periodic 2-minute news segments put into the Saturday morning children's schedule at an annual cost of around \$500,000. ABC introduced Curiosity Shop, an entertainment-information program which costs \$130,000 for each

1-hour program. The original plan was to produce 17 original shows, costing \$130,000 each for a total cost of \$2,210,000 and then repeat each show 6 times for an average cost of nearly \$22,000 per hour, per showing, which means that the show costs roughly what a cartoon costs. NBC introduced Barrier Reef, a half-hour Australian live-action adventure series with a lot of underwater filming and an ecology theme, which costs \$20,000 for 3 showings--below the usual average cost. In addition, the network introduced Take a Giant Step a one-hour entertainment-information program budgeted at \$30,000 a show. NBC plans to produce at least 26 original shows, and possibly 30, then repeat the best of them. So the average cost per showing will be \$15,000--or \$7,500 per half hour, considerably lower than the average cost of children's Saturday morning programming.

The program cost figure to bear in mind therefore is an average of \$10,000 or \$11,000 per half hour per showing for weekend children's programming at the network level, with programming costs of around \$250,000 per hour for first showings of network prime-time children's television.

(b) Revenues

Although the costs of programs listed above are current costs, i.e. 71-72 season, the revenues listed below are for the 1970 calendar year. The data were derived from Broadcast Advertisers Reports Inc., in New York. As we have seen, total gross revenues from network weekend children's shows for 1970 were

\$74,664,400, up from an estimated \$68,994,300 in 1969; ABC was the only network that registered a decline in gross revenue from \$22,221,500 in 1969 to \$20,206,300 in 1970, while CBS's gross revenue rose from \$34,827,000 in 1969 to \$39,878,400 in 1970, and NBC's went from \$11,945,800 in 1969 to \$14,579,700 in 1970. It must be remembered that 1970 was a bad year financially for the networks, and for broadcasters in general, so a rise in revenue from children's programming was helpful in what otherwise was a poor year.

The following chart will be of help in comparing gross revenues from children's programming with gross revenue from other types of programming:

Estimated Network Revenues: Calendar Year 1970

<u>Daypart</u>	<u>Total Est. in 000's</u>	<u>ABC Rev.</u>	<u>% of Total</u>	<u>CBS Rev.</u>	<u>% of Total</u>	<u>NBC Rev.</u>	<u>% of Total</u>
Prime Time	\$897,420.2	\$264,964.1	29.52	\$322,688.8	35.95	\$309,767.4	34.51
M-F Daytime	331,387.0	83,431.1	25.17	156,602.1	47.25	91,353.8	27.56
Kids Shows	74,664.4	20,206.3	27.06	39,878.4	53.41	14,579.7	19.52
AM/PM Var.	68,605.6	6,820.3	9.94	13,794.0	20.10	47,991.3	69.95
News	108,332.3	13,298.4	12.27	57,104.4	52.71	37,929.5	35.01
Sports	175,329.5	68,899.6	39.29	51,232.9	29.22	55,197.0	31.48
Ev. Ent. Spec.	66,685.8	13,348.1	20.01	15,138.7	22.70	38,199.0	57.28
Other	10,233.9	523.9	5.11	5,212.7	50.93	4,497.3	43.94
Total	\$1,732,638.7	\$471,491.8	27.21	\$661,652.0	38.18	\$599,514.9	34.60

Source: BAR.

What follows is a breakdown, program by program, and network by network, of the 1970 gross revenues from network children's programs. It should be noted that not all programs run for the full 12 months because some were introduced in the 69-70 season, while others were introduced for the 70-71 season.

ABC Television Weekend Children's Shows: 1970.

Adventures of Gulliver grossed \$322,200 in 9 months from 100 minutes of advertising, an average of \$3,232 per minute. Biggest advertiser: General Foods - \$58,000 for 19 minutes of advertising.

Bullwinkle grossed \$1,373,200 in 12 months from 267 minutes of advertising, an average of \$5,143 per minute. Biggest advertiser: General Mills - \$528,300 for 103 minutes.

Cattanooga Cats I grossed \$1,348,700 in 12 months from 250 minutes and 45 seconds of advertising, an average of \$5,373 per minute. Biggest advertisers: Ralston Purina Company - \$98,100; Marx - \$92,800.

Cattanooga Cats II grossed \$983,600 in 9 months from 181 minutes of advertising, an average of \$5,434 per minute. Biggest advertiser: General Foods - \$155,800 for 31 minutes.

Dudley Do-Right grossed \$463,200 in 10 months from 147 minutes of advertising, an average of \$3,151 per minute. Biggest advertiser: General Mills - \$182,200 for 58 minutes.

Fantastic 4/Fantastic Voyage grossed \$656,600 in 12 months from 157 minutes of advertising, an average of \$4,291 per minute. Biggest advertisers: Mattel - \$110,700; General Foods - \$58,000

George of the Jungle grossed \$711,100 in 9 months from 143 minutes of advertising, an average of \$4,972 per minute. Biggest advertisers: General Mills - \$149,200; General Foods - \$84,000.

Hardy Boys grossed \$1,665,100 in 12 months from 280 minutes of advertising, an average of \$5,946 per minute. Biggest advertisers: Mars - \$202,200; General Foods - \$182,400; General Mills - \$143,700; Mattel - \$140,700.

Here Come the Double-Deckers grossed \$866,000 in 4 months from 94 minutes of advertising, an average of \$9,212 per minute. Biggest advertiser: General Mills - \$147,200 for 16 minutes.

Hot Wheels grossed \$1,697,600 in 12 months from 265 minutes of advertising, an average of \$6,406 per minute. Biggest advertisers: Mars - \$255,800; Mattel - \$224,000; General Foods - \$134,800.

Jonny Quest grossed \$439,200 in 4 months from 91 minutes of advertising, an average of \$4,826 per minute. Biggest advertisers: General Mills - \$116,700; Quaker - \$67,000.

Lancelot Link Chimps I grossed \$712,400 in 4 months from 91 minutes and 30 seconds of advertising, an average of \$7,828 per minutes. Biggest advertisers: General Mills - \$116,700; Quaker - \$67,000.

Lancelot Link Chimps II grossed \$783,200 in 4 months from 89 minutes of advertising, an average of \$8,800 per minute. Biggest advertisers: Eldon Industries - \$123,200; Mattel - \$96,800; Marx - \$70,400.

Motor House grossed \$394,200 in 4 months from 79 minutes of advertising, an average of \$4,989 per minute.

Reluctant Dragon - Mr. Toad grossed \$253,000 in 4 months from 73 minutes of advertising, an average of \$3,465 per minute. Biggest advertisers: General Mills - \$57,600; General Foods - \$36,000.

Sky Hawks grossed \$1,316,700 in 12 months from 249 minutes of advertising, an average of \$5,287 per minute. Biggest advertisers: Mars- \$184,800; General Foods - \$173,700; Ideal Toy - \$112,600; Quaker - \$111,900.

Smokey Bear Show grossed \$889,700 in 12 months from 225 minutes of advertising, an average of \$3,954 per minute. Biggest advertisers: General Foods - \$122,800; General Mills - \$113,500.

Spiderman grossed \$264,700 in 3 months from 63 minutes of advertising, an average of \$4,201 per minute. Biggest advertisers: Mattel - \$66,600; Remco - \$39,000; Tootsie Roll - \$33,400.

Will Jerry Lewis Sit Down grossed \$872,100 in 4 months from 93 minutes of advertising, an average of \$9,377 per minute. Biggest advertisers: Ideal Toy - \$139,600; General Mills - \$112,700.

American Bandstand grossed \$2,841,800 in 12 months from 464 minutes of advertising, an average of \$6,124 per minute.

Together, all the programs listed above grossed \$18,974,800 in 1970, with a total of 3,411 minutes of advertising, an average of \$5,562 per minute.

ABC Television Children's Specials broadcast in 1970:

Santa Claus, a one-hour show broadcast in December, grossed \$298,800 from 6 minutes of advertising, an average of \$49,800 per minute. Advertisers: American Home, Bristol-Myers, Campbell, Norton Simon, Polaroid, and RCA - all 1 minute.

The Animals Talked, a half-four show broadcast in December, grossed \$194,400 from 3 minutes of advertising, paid for by Norton Simon, at an average of \$64,800 per minute.

Tales of Muppetland, broadcast in April, grossed \$763,200 from 15 minutes of advertising, an average of \$50,880 per minute. Reynolds Industries bought 6 minutes for \$270,000, an average of \$45,000 per minute.

Animal World, a series of six one-hour specials broadcast monthly, grossed \$1,501,100 from 63 minutes of advertising, an average of \$23,826 per minute.

With These Hands, a one-hour show broadcast in May, grossed \$297,000 from 6 minutes of advertising, an average of \$49,500 per minute. The sponsor was S.C. Johnson.

In addition, ABC carried the following series of special interest to children:

Undersea World of Jacques Cousteau grossed \$2,916,000 from 54 minutes of advertising, an average of \$54,000 per minute. There were 9 shows during 1970. Biggest advertisers: DuPont - \$1,248,000; Hartford Insurance Company - \$1,248,000; Armstrong Cork - \$420,000.

3M Specials grossed \$1,757,300 from 39 minutes of advertising, an average of \$45,058 per minute. 3M was the sole sponsor.

CBS Television Weekend Children's Shows: 1970.

Wacky Races grossed \$1,600,600 in 9 months, selling 199 minutes of advertising, an average per minute cost of \$8,043. Biggest advertisers: General Foods - \$274,300; General Mills - \$238,200; Mattel - \$212,200; Quaker - \$166,500; Topper - \$139,400.

Tom and Gerry grossed \$1,431,000 in 12 months, selling 279 minutes of advertising, an average per minute cost of \$5,129. Biggest advertisers: General Mills - \$413,200; Topper - \$153,400; Mattel - \$139,800; Kellogg - \$75,700; Bristol-Myers - \$69,600; Miles Labs - \$68,300; General Foods - \$56,600.

Superman grossed \$1,155,000 in 9 months, selling 182 minutes of advertising, an average per minute cost of \$6,346. Biggest advertisers: General Mills - \$307,700; Mattel - \$177,400; General Foods - \$17,700; Topper - \$88,800; Pepsico - \$51,500; Quaker - \$43,200.

Scooby Doo Where Are You? grossed \$3,200,500 in 12 months, selling 307 minutes of advertising, an average per minute cost of \$10,425. Biggest advertisers: Mattel - \$569,900; General Foods - \$515,200; Quaker - \$391,200; Kellogg - \$394,300; Topper - \$165,800; General Mills - \$159,100; Bradley Milton - \$117,800; Borden - \$116,100.

Sabrina Groovie Coolies grossed \$2,200,300 in 4 months, selling 176 minutes of advertising, an average per minute cost of \$12,501. Biggest advertisers: Mattel - \$227,700; General Foods - \$184,600; General Mills - \$179,800; Marx - \$179,800; Topper - \$179,600; Ralston Purina - \$119,800; Quaker - \$92,600; Nestlé - \$92,400; Bristol-Myers - \$92,400.

The Monkees grossed \$2,954,800 in 12 months, selling 286 minutes of advertising, an average per minute cost of \$10,331. Biggest advertisers: General Foods - \$675,900; Mattel - \$671,000; Topper - \$320,200; General Mills - \$198,600; Nabisco - \$183,600; Kellogg - \$161,600; Nestlé - \$119,600.

Perils of Penelope Pitstop grossed \$2,234,100 in 12 months, selling 290 minutes of advertising, an average of \$7,703 per minute. Biggest advertisers: General Mills - \$583,900; Mattel - \$29,900; Topper - \$259,700; General Foods - \$203,400; Quaker - \$164,900; Kellogg - \$112,400.

Josie and the Pussycats grossed \$1,172,700 in 4 months, selling 94 minutes of advertising, an average of \$12,475 per minute. Biggest advertisers: Kellogg - \$597,100; Mattel - \$565,400.

Jonny Quest grossed \$1,036,000 in 9 months, selling 193 minutes of advertising, an average of \$5,367 per minute. Biggest advertisers: General Mills - \$317,100; Mattel - \$154,900; Topper - \$79,100; General Foods - \$60,900; Pepsico - \$52,700; Keebler - \$47,600.

The Jetsons grossed \$1,143,600 in 12 months, selling 290 minutes of advertising, an average of \$3,943 per minute. Biggest advertisers: General Mills - \$395,300; Topper - \$123,100; Mattel - \$122,300; Miles Labs - \$88,200; General Foods - \$77,700.

The Jetsons, shown on one Sunday in November, grossed \$33,000 for 5 minutes of advertising, an average of \$6,600 per minute.

In The Know grossed \$612,500 in 4 months, selling 40½ minutes of advertising, an average of \$15,122 per minute. Only advertisers: Mettel and Kellogg.

Harlem Globetrotters grossed \$1,235,800 in 4 months, selling 87 minutes of advertising, an average of \$12,358 per minute. Biggest advertisers: Topper \$230,700; Kellogg - \$169,100; General Foods - \$165,000; Quaker - \$115,700; Nestlé - \$111,400.

Dastardly and Muttley grossed \$2,521,700 in 12 months, selling 286 minutes of advertising, an average of \$8,817 per minute. Biggest advertisers: Kellogg - \$914,000; Topper - \$298,700; Mattel - \$285,500; American Home Products - \$152,600; Bradley Milton - \$113,800; Nestlé - \$109,300; Miles Labs - \$85,800.

Bugs Bunny Road Runner I grossed \$420,700 in 14 months, selling 91 minutes of advertising, an average of \$4,623 per minute. Biggest advertisers: General Mills - \$95,800; Bradley Milton - \$47,200; Marx - \$38,100; Quaker - \$36,300; Miles - \$33,000.

Bugs Bunny Road Runner II grossed \$678,100 in 4 months, selling 88 minutes of advertising, an average of \$7,705 per minute. Biggest advertisers: General Mills - \$152,800; Kellogg - \$91,800; General Foods - \$77,600; Quaker - \$62,800; Ralston Purina - \$62,000.

Bugs Bunry Road Runner grossed \$2,613,300 in 12 months, selling 414 minutes of advertising, an average of \$6,312 per minute. Biggest advertisers: General Mills - \$509,700; General Foods - \$277,400; Mattel - \$240,700; Quaker - \$246,300; Topper - \$155,200; Kellogg - \$136,800; Bristol-Myers - \$120,400; Miles Labs - \$110,400; Nabisco - \$109,700.

Batman grossed \$942,600 in 9 months, selling 212 minutes of advertising, an average of \$4,446 per minute. Biggest advertisers: General Mills - \$247,000; General Foods - \$141,400; Mattel - \$89,200.

Archie's Fun House grossed \$2,434,200 in 4 months, selling 181 minutes of advertising, an average of \$13,448 per minute. Biggest advertisers: Mattel - \$656,500; Quaker - \$322,500; General Foods - \$224,300; Topper - \$205,700; Kellogg - \$161,800; Ideal Toy - \$123,000.

Archie Comedy Hour grossed \$3,832,300 in 9 months, selling 495 minutes of advertising, an average of \$9,462 per minute. Biggest advertisers: General Foods - \$811,400; Topper - \$417,300; Quaker - \$351,000; Mattel - \$336,300; General Mills - \$269,400; Kellogg - \$210,400; Miles Labs - \$180,600; Nabisco - \$176,000; Nestlé - \$175,500; Bristol-Myers - \$167,200; Borden - \$125,000.

Together, all the programs listed above grossed \$33,452,800 in 1970, with a total of 4,105 minutes of advertising, an average of \$8,149 per minute.

In addition, CBS presented Captain Kangaroo from 8 to 9 a.m. daily, Monday through Friday for pre-schoolers as part of its regular children's television schedule. In 1970, the show grossed an estimated \$6,591,800, carrying a total of 2,010 minutes of advertising, at an average of \$3,379 per minute. The biggest advertisers were: Kellogg - \$1,912,400; General Mills - \$531,200; Colgate-Palmolive - \$491,800; Bradley Milton - \$447,500; Bristol - Myers - \$416,200; ITT - \$312,500.

CBS Children's Specials broadcast in 1970:

You're in Love Charlie Brown, a half-hour show, carried 3 minutes of advertising for which Coca-Cola paid \$88,200, an average of \$29,400 per minute.

Short Summer Charlie Brown, a half-hour show, carried 3 minutes of advertising shared between Coca-Cola and Interstate, for which they paid \$175,400, an average of \$87,700 per minute.

He's Your Dog Charlie Brown, a half-hour show broadcast in March, carried 3 minutes of advertising shared between Coca-Cola and Interstate Brands, for which they paid \$140,600, an average of \$46,866 per minute.

Charlie Brown's Christmas, a half-hour show broadcast in December, carried 3 minutes of advertising for which Coca-Cola paid \$168,900, an average of \$56,300 per minute.

Charlie Brown's All-Stars, a half-hour show, carried 3 minutes of advertising shared between Coca-Cola and Interstate Brands, for which they paid \$112,000, an average of \$37,333 per minute.

It's a Great Pumpkin, a half-hour show broadcast in October, carried 3 minutes of advertising shared between Coca-Cola and Interstate Brands, for which they paid \$175,400, an average of \$87,700 per minute.

How Grinch Stole Christmas, a half-hour show broadcast in December, carried 3 minutes of advertising - 1 minute each from Eastman-Kodak, Singer, and Swift, for which they paid a total of \$243,000, an average of \$81,000 a minute.

Frosty the Snowman, a half-hour show broadcast in December, carried 3 minutes of advertising paid for by Pillsbury to gross \$224,600 in advertising revenue for CBS, an average of \$75,200 per minute.

Dr. Seuss, a half-hour program broadcast in March, carried 3 minutes of advertising for which Nabisco paid \$374,800, an average of \$124,933 per minute.

Cinderella, a 1½ hour show broadcast in April, carried 9 minutes of advertising to gross \$349,200, an average of \$38,800 per minute. Borden, Bristol-Myers, ITT, Miles Labs, Pillsbury, Proctor and Gamble, and the RCA Corporation, all bought a minute.

Archie and His Pals, a half-hour show broadcast in March, carried 3 minutes of advertising to gross \$72,000, an average of \$24,000 per minute. Bristol-Myers bought 2 minutes and Coca-Cola 1 minute.

Tales of Washington Irving, broadcast in October, carried 8 minutes of advertising, for which General Mills paid \$123,100, an average of \$15,387 per minute.

Christmas Carol, broadcast in November, carried 10 minutes of advertising paid for by General Mills, to gross \$120,000, an average of \$12,000 per minute.

CBS Children's Film Festival, a show broadcast in March, carried 7 minutes of advertising to gross \$46,900, an average of \$6,700 per minute. General Foods bought 3 minutes for \$20,400, with General Mills, Keebler, Kellogg, and Health Tex each buying a minute.

CBS Children's Hour, broadcast in prime-time in November, carried 6 minutes of advertising to gross \$217,400, an average of \$36,233 per minute. Health Tex bought 2 minutes, with Campbell, Kentucky Fried Chicken, Nestlé, and Richardson-Merrell buying 1 minute each.

CBS Children's Hour, broadcast at various times throughout the season, carried a total of 28 minutes of advertising to gross \$521,700, an average of \$18,632 per minute. Reynolds Metals bought 8 minutes for \$149,200, Health Tex bought 7 minutes for \$137,800, Topper bought 4 minutes for \$77,400, General Foods bought 4 minutes for \$69,700, and Campbell bought 2 minutes for \$48,800.

Yankee at King Arthur's Court, shown in November, carried 14 minutes of advertising to gross \$159,900, an average of \$11,421 per minute. General Mills was the biggest backer, buying 10 minutes for \$114,100.

Where's Huddles, broadcast in July, carried 3 minutes of advertising, for which Coca-Cola paid \$62,000, an average of \$20,666 per minute.

The specials listed above earned a total gross revenue of \$3,376,100 in 1970, and carried a total of 115 minutes of advertising, to average \$29,357 per minute.

Altogether, including specials and Captain Kangaroo, CBS earned \$43,420,700 from programs directed towards children in 1970. All of these programs carried a total of 6,230 minutes of advertising.

NBC Television Weekend Children's Shows: 1970.

Banana Splits grossed \$1,927,500 in 9 months, selling 315 minutes of advertising, an average of \$6,119 per minute. Splits is a one-hour show. Biggest advertiser was Kellogg which spent \$1,226,300 on 201 minutes.

The Bugaloos grossed \$784,600 in 4 months, selling 90 minutes of advertising, an average of \$8,717 per minute. Biggest advertisers: Mattel - \$202,400; Quaker - \$138,700; Kellogg - \$137,500.

The Flintstones grossed \$678,600 in 9 months, selling 150 minutes of advertising, an average of \$4,524 per minute. Biggest advertiser was General Foods which spent \$146,900 on 32 minutes.

Further Adventures of Dr. Doolittle grossed \$838,500 in 4 months, selling 86 minutes of advertising, an average of \$9,750 a minute. Biggest advertisers: Mattel - \$294,200; Quaker - \$154,700; Kellogg - \$124,200.

H.R. Pufnstuf grossed \$2,235,100 in 12 months, selling 294 minutes of advertising, an average of \$7,602 per minute. Biggest advertisers: Kellogg - \$791,700; Hasbro - \$701,200; Topper - \$167,200.

Heckle and Jeckle grossed \$534,800 in 12 months, selling 190 minutes of advertising, an average of \$2,814 per minute. Biggest advertisers: General Foods - \$59,500; Miles Labs - \$50,400; ITT - \$44,200. This show broadcast at 8 a.m.

Heckle and Jeckle grossed \$619,100 in 9 months, selling 183 minutes of advertising, an average of \$3,383 per minute. Biggest advertisers: Kellogg - \$121,300; Quaker - \$73,400. This show broadcast at 8:30 a.m.

Here Comes the Grump grossed \$1,584,600 in 12 months, selling 279 minutes of advertising, an average of \$5,715 per minute. Biggest advertisers: Mars - \$294,600; Kellogg - \$177,500; Bristol-Myers - \$149,900; Miles Labs - \$141,600.

Hot Dog grossed \$410,400 in 4 months, selling 76 minutes of advertising, an average of \$5,400 per minute. Biggest advertiser: Mattel - \$210,600 for 39 minutes.

Jambo grossed \$667,500 in 12 months, selling 168 minutes of advertising, an average of \$3,973 per minute. Biggest advertiser: Mars - \$166,800 for 41 minutes.

NBC Children's Theatre grossed \$254,300 from 3 one-hour shows in October, November, and December, selling 30 minutes of advertising, an average of \$8,476 per minute. Biggest advertiser: Mattel, which bought all 30 minutes for \$254,300.

Pink Panther grossed \$2,084,300 in 12 months, selling 296 minutes of advertising, an average of \$7,041 per minute. Biggest advertisers: Kellogg - \$376,500; American Home Products - \$363,100; Quaker - \$284,000; Mattel - \$265,500; Mars - \$226,000.

Tom Foolery Show grossed \$658,900 in 4 months, selling 90 minutes of advertising, an average of \$7,321 per minute. Biggest advertisers: Topper - \$163,200; Kellogg - \$115,300; Quaker - \$94,200.

Underdog grossed \$523,1900 in 9 months, selling 130 minutes of advertising, an average of \$4,023 per minute.

Woody Woodpecker grossed \$447,800 in 4 months, selling 93 minutes of advertising, an average of \$4,815 per minute.

Together, all the programs listed above grossed \$14,269,300 in 1970, with a total of 2,470 minutes of advertising, an average of \$5,777 per minute.

NBC Children's Specials broadcast in 1970:

House on the Mayflower, a one-hour program, was shown in November and carried 8 minutes of advertising for which Ideal Toy paid \$235,500, an average of \$29,437 per minute.

The American Rainbow Series, a 6 one-hour programs over a period of 6 months, carried 48 minutes of advertising for which Howard Johnson paid \$570,400, an average of \$11,883 per minute.

Goldilocks, a half-hour show, was shown twice - in March and in November. In March, Armstrong Cork paid \$397,200 for 3 minutes of advertising, an average of \$132,400 per minute. In November, Sun Maid paid \$207,200 for 3 minutes of advertising, an average of \$69,066 per minute.

Hans Brinker, shown in December, carried 12 minutes of advertising during the 1-hour program. This grossed \$639,600, an average of \$53,300 per minute. The show was sponsored by Florists Transworld.

Hey, Hey, Hey Fat Albert, a half-hour program shown in April, grossed \$76,800 for 3 minutes of advertising, an average of \$25,600 per minute. Mattel was the sponsor.

Little Drummer Boy grossed \$166,000 from 3 minutes of advertising, an average of \$55,333 per minute. The sponsor was American Gas Association.

Pogo Birthday Special, broadcast in February, carried 3 minutes of advertising for \$176,400, an average of \$58,800 per minute. Proctor and Gamble was the sponsor.

Rudolph the Red Nose Reindeer, broadcast in December, carried 6 minutes of advertising in a 1-hour show to gross \$401,900, an average of \$66,983 per minute. The sponsors were General Electric (3 minutes) and Ideal Toy (3 minutes).

Uncle Sam Magoo, a one-hour show broadcast in February, grossed \$309,900 from 6 minutes of advertising, an average of \$51,650 per minute. The sponsor was General Foods.

Winnie the Pooh Blustery Day, a half-hour show broadcast in November, grossed \$344,400 from 3 minutes of advertising, an average of \$114,800 per minute. The sponsor was Sears Roebuck.

Winnie the Pooh Honey Tree, a half-hour show, carried 3 minutes of advertising and grossed \$399,000, an average of \$133,000 per minute. Sears Roebuck was the sponsor.

Together, all the above-named children's specials grossed \$3,924,300 in 1970, with a total of 101 minutes of advertising, an average of \$38,854 per minute. Total children's show advertising: \$18,193,600.

In addition, NBC presented The Wizard of Oz, which is usually aired once a year. This was broadcast in February and grossed \$959,600 from 14 minutes of advertising, an average of \$68,542 per minute. The sponsor was the Sugar Company.

Finally, NBC presents Wonderful World of Disney, a 1-hour weekly program aired on Sunday. In 1970 this program carried 325 minutes of advertising to gross \$15,909,700, an average of \$48,952 per minute. The sponsors were: Walt Disney products bought 25 minutes for \$1,222,700; Gulf Oil bought 148 minutes for \$7,252,000; Kentucky Fried Chicken bought 1 minute for \$38,000; Mars bought 47 minutes for \$2,110,200; McDonald's Hamburgers bought 3 minutes for \$114,000; Metropolitan Life Insurance bought 23 minutes for \$1,380,000; Nabisco bought 76 minutes for \$3,717,000; 7 Up bought 1 minute for \$38,000; Standard Brands bought 1 minute for \$37,800.

These last two programs, Oz and Disney, grossed \$35,062,900 in 1970.

The BAR figures outlined above are probably overstated by up to 7 percent, but they are generally accepted as being "reasonably accurate" by the 3 networks. The breakdown figures do not tally exactly with the total figures supplied by Broadcast Advertisers Reports because only those children's specials aired at weekends would be included in the weekend totals for network children's television. In addition, it should be stressed that some children's specials are advertiser-owned in which case the advertiser pays the network a flat fee for networking the special and the advertiser can selltime in that program to other advertisers. However, the revenue earned by the network presenting the program probably results in the same amount of profit since a pre-packaged special with proved appeal is usually willingly accepted for networking.

Looking at the above advertising figures for the 3 networks by categories results in the following breakdown:

<u>CHILDREN'S PGM CATEGORY</u>	<u>ABC TV NET.</u>	<u>CBS TV NET.</u>	<u>NBC TV NET.</u>
Reg. scheduled weekend programming	\$18,974,800	\$33,452,800	\$14,269,300
Specials, incl. weekends	3,054,500	3,376,100	3,924,300
Reg. scheduled weekday programming (Capt. Kangaroo)	-----	6,591,800	-----
Other programs with child interest	4,673,300 (Cousteau/ 3M specials)	-----	16,869,300 (Disney/Oz)
<u>TOTALS</u>	\$26,702,600	\$43,420,700	\$35,062,900

So although NBC does poorly in revenues from its regularly scheduled Saturday morning children's shows, the network is able to bring up its revenue because of its prime-time children's program, Wonderful World of Disney. The Jacques Cousteau programs, aired by ABC, are thought to be primarily adult interest but nonetheless usually attract a good children's audience because the programs are scheduled periodically at 7:30 p.m.

4. IMPACT ON PROFITS OF A REDUCTION OF COMMERCIAL TIME ON NETWORK CHILDREN'S PROGRAMMING.

There are two important deductions that are made from gross advertising revenues, and these must be considered before going on to see what kind of profit is generated by children's programming and before attempting to see what impact a reduction of commercial time might have.

The first deduction is quite simple and straightforward: it is a 15 percent commission paid to the ad agencies that place the advertising with the network or other broadcasting organization. This 15 percent commission is deducted from all gross advertising receipts. Although it is a cost, it is mentioned here because it is a cost directly associated with revenue, rather than a cost of programming or an operating cost.

The second deduction from advertising revenue is station compensation, and this a slightly more complicated deduction. Put simply, it is a deduction of up to 20 percent from all television network advertising and it is paid to affiliates and owned stations in the form of compensation to them for broadcasting network

programs and network advertising.

A special station compensation formula is used to compute the payments made to affiliates, including the owned stations, for each hour of network programming the stations clear. The hours are weighted in proportion to approximate audience levels at different time periods:

<u>Name</u>	<u>Hours</u>	<u>Days</u>	<u>Weighting</u>
A-Hour	6-11 p.m.	Mon-Sun	100 percent
C-Hour	5-6 p.m. 4-6 p.m.	Mon-Fri) Sat-Sun)	50 percent
E-Hour	10 a.m.-5 p.m. 8 a.m.-1 p.m.	Mon-Fri) Sat-Sun)	35 percent

NB: Special compensation arrangements are made for time periods not listed above.

After a month of programming network material has passed, the number of hours of each type is added up, multiplied by its weighting factor and converted to what are known as "equivalent A-Hours." The amount paid to a particular station in compensation depends upon the multiplication of these equivalent A-Hours by a factor which is approximately one-third the A-Hour rate. The A-Hour rate is a price per hour established by the network for each affiliate. The price approximates to the rate the station could get if the station were selling the air-time locally. This rate depends upon the prime-time audience the local station has managed to obtain. If the station were selling the air-time locally, however, the station would incur program and selling costs. To reflect the reduced costs and risks, affiliates and owned stations are compensated at one-third of their A-Hour rate. The rates are published annually by the networks in their rate guides. For the 1970-71 season, the NBC Television

Network Rate Guide listed WNBC-TV in New York City, a wholly owned station, as having an A-Hour rate of \$10,000, while WBZ-TV in Boston was assessed at \$3,450, WFBM-TV in Indianapolis was \$1,625, and KMOT-TV in Minot, North Dakota, was \$125. The total for all 217 NBC affiliates was nearly \$166,000.

Supposing that an affiliate's A-Hour rate is \$1,500, and it clears the following hours in a given month:

<u>Name</u>	<u>Cleared</u>	<u>Factor</u>	<u>Equivalent A-Hours</u>
A-Hours	80	100 %	80
C-Hours	10	50 %	5
E-Hours	100	35 %	<u>35</u>

TOTAL : 120 A-Hours Cleared

Station compensation is then worked out according to the following formula:

Equivalent A-Hours Cleared X A-Hour Rate X 1/3 = Total Compensation.

This becomes :

$$120 \times \$1,500 \times \frac{1}{3} = \$60,000 \text{ a month, or more simply:}$$

$$120 \times \$500 = \$60,000.$$

Because the television network pays AT&T for inter-connection and feeding the program by lines to the affiliates transmitter, most affiliates agree to forego the first 24 A-Hours of compensation. If the affiliate provides its own inter-connection and line facilities, it is fully compensated. Continuing with the above example, the affiliate, assuming that it was fed by AT&T land line paid for by the network, would be assessed at \$12,000 a month for this service and would receive \$48,000 in compensation for transmitting the network's programs and advertisements. Beginning in 1970,

however, the affiliates receiving signals from AT&T had a further 6.5 percent subtracted from their total compensation to help the networks offset increased AT&T line costs.

So the basic station compensation formula and the one used for the owned stations is:

93.5 percent of Equivalent A-Hours - 24 A-Hours x A-Hour Rate $\times \frac{1}{3}$

NB: ABC, rather than complicate the compensation formula, decided to reduce the affiliates hourly rates rather than deduct the 6.5 percent land lines price increase from the station compensation formula.

Station compensation and clearances are the twin examples of the intangible nature of a network. A network exists as a result of its contracts with its owned stations and affiliates. Without the affiliates and without network program clearances, there is no network. Without affiliate clearances, programs cannot attain large audiences. Without large audiences, network programs cannot be sold.

For the purposes of the computations that follow, and for the sake of simplicity, station compensation for network children's programs will be assessed at 10 percent of gross revenues. This is probably somewhat high, but it brings total deductions from gross advertising receipts to 25 percent--15 percent agency commission and 10 percent station compensation--and makes things easier to understand. However, fully 20 percent of the total amount paid in station compensation goes to the 5 owned stations that belong to the broadcast groups of the 3 networks, so a fifth of the compensation money stays within the family.

Profit contributions of children's television programs

The reason for having a maximum of 16 minutes per hour (12 minutes for the networks and 4 minutes for affiliate sold commercials, station ID's and billboards, with 8 commercial interruptions in each hour) of non-program material in children's television is because it has not hitherto been treated as a separate programming segment, but has been lumped together with daytime television. Historically, daytime television has had much more advertising per hour than prime-time television. Generally speaking, however, few children's programs carry the maximum number of advertising minutes throughout the year. The familiar pattern that has developed is that the programs tend to be fully booked by advertisers during the fourth quarter--October through December--and 80 percent booked for the rest of the year. Public service announcements and/or promotional material usually fill unsold commercial minutes.

Bearing all of this in mind, the profit effects of a number of well known children's programs will be examined:

Captain Kangaroo, a one-hour program presented by CBS TV network from 8-9 a.m. Monday through Friday, grossed \$6,591,800 in 1970 from a total of 2,010 minutes of advertising. Thus the average price per minute was \$3,279, and the average number of network advertising minutes per show was 8--considerably fewer than the 12 network minutes that will be allowed starting January, 1973. In addition, the show carried local commercials sold by the affiliates carrying the show. The weekly show budget for Captain Kangaroo in 1970 was \$75,000, or \$3,900,000 for the year. The profit contribution of

this show can now be computed:

Gross Advertising Receipts :	\$6,591,800
Deductions : 15 percent agency commission; 10 percent station comp.	<u>1,650,000</u>
Net adv. revenue	4,941,800
Deduct annual show costs	<u>3,900,000</u>
Profit effect	1,041,800

Effect of reducing commercial time

There have been suggestions that the amount of commercial time in children's television should be reduced. The purpose of this next section is to explore the financial impact on the networks of a reduction in commercial time in children's programming. In the cases that are examined below, the networks can still make a profit from children's shows that have 8 minutes, as distinct from 12 minutes, of network advertising per hour, even if no change in price per minute is assumed. From January 1, 1973, the networks will permit only 8½ minutes of network sold commercials in children's weekend programming.

As we have seen, Captain Kangaroo averaged only 8 network commercial minutes per show in 1970, even though a maximum of 12 network commercial minutes are allowed under the NAB Code. However, it might be worthwhile to examine the financial impact on this show if a one-minute commercial were taken away per day, to make an average of 7 network sold commercial minutes per show. In 1970 the average per minute price of a 1-minute network commercial in Captain Kangaroo was \$3,279, which has to be multiplied by the 260

weekday programs in the year, to give a total of \$852,540. We can now measure the financial impact of this situation as follows:

Gross advertising receipts in 1970 :	\$6,591,800
Less cost of 1-minute commercial per day for 260 days	<u>852,540</u>
	\$5,739,260
Deductions: 15 percent agency Commission: 10 percent station compensation	<u>1,434,814</u>
Net advertising revenue	\$4,304,445
Deduct annual show costs	<u>3,900,000</u>
Profit effect	\$ 404,445

If two minutes of advertising were taken away from the program and making the same assumption about price, theoretically Captain Kangaroo would go into a loss position.

However, the assumption that advertising prices would remain the same if the number of advertising minutes were reduced is probably an unrealistic assumption. It is much more likely that there would be some upward movement in price since advertisers would be willing to pay more for greater relative exposure due to a reduction of advertising clutter. It is assumed that clutter reduces advertising prices, so less clutter should increase prices.

CBS has threatened to terminate production on Captain Kangaroo more than once because of claims that the show was losing money.

The show certainly made money in 1970 and probably made money in 1971 because of its reputation, among advertisers, as a "quality" program for young children. Captain Kangaroo was probably put into its particular time-slot by CBS because of NBC's leadership in the ratings at that time of day with its long running news magazine program, The Today Show. Consequently CBS programmed alternative viewing for the pre-schoolers, a group that is normally ignored by the commercial network on weekdays. Even so, if CBS programmed a re-run of a show like Lucy in the 8 to 9 a.m. slot, the network would probably make a far higher profit contribution than it does from Captain Kangaroo.

A number of popular cartoon programs from all 3 networks, will now be examined:

Hot Wheels, a half-hour Saturday morning cartoon on ABC, grossed \$1,697,600 in 1970 from 265 minutes of advertising. The average price per minute was \$6,406, and there were an average of 5 network commercial minutes per show.

The profit contribution of this cartoon show can be computed as follows:

Gross adv. receipts :	\$1,697,600
Less 25 percent deductions :	<u>424,500</u>
Net adv. revenue	1,273,100
Deduct ann. show costs (11,000 x 52)	<u>572,000</u>
Profit effect	701,100

The contribution to ABC profits of this show in 1970 was \$701,100. Consequently there is room to give up 1-minute of

advertising per half-hour, even if the average price per minute remains the same:

Gross advertising receipts in 1970 :	\$1,697,600
Minus cost of reduction in commercial time assuming price per minute remains the same (\$6,406 x 52)	<u>333,112</u>
	\$1,364,488
Deductions: 15 percent agency Commission: 10 percent station compensation	<u>341,122</u>
Net advertising revenue	\$1,023,366
Deduct annual show costs	<u>572,000</u>
Profit effect	\$ 451,366

CBS, as we shall see later, has traditionally been the winner of the contest to attract vast numbers of child viewers on Saturday morning and much of its 1970 schedule for children remains intact in the current season. One of the favorites, Scooby Doo Where Are You? attracted gross advertising revenue of \$3,200,500 in 1970 from a total of 307 minutes of advertising. The average price per minute of commercial in this half-hour cartoon cost \$10,425 in 1970, and the show carried an average of almost 6 minutes of network commercials for each screening:

Gross advertising receipts :	\$3,200,500
Less deductions of 25% :	<u>800,125</u>
Net advertising revenue :	2,400,375
Less annual show costs (\$11,000 x 52) :	<u>572,000</u>
Annual profit contribution :	1,838,375

If two minutes of commercials were deducted for every week during the year, and assuming no change in average price per minute, the profit contribution of the show would be as follows:

Gross advertising receipts in 1970	:	\$3,200,500
Minus cost of reduction in commercial 2 minutes per week for 52 weeks (\$10,425 x 52)		<u>1,084,200</u>
		\$2,116,300
Deductions: 15 percent agency Commission: 10 percent station compensation		<u>529,075</u>
Net advertising revenue		\$1,587,225
Deduct annual show costs		<u>572,000</u>
Profit effect		\$1,015,225

NBC has done poorly in the weekend children's television ratings in recent years. One of the network's most profitable shows in 1970 was H.R. Pufnstuf, a half-hour cartoon that grossed \$2,235,100 from 294 minutes of advertising. The average price per minute was \$9,750, and the network carried an average of 5½ minutes of advertising per show:

Gross adv. receipts	:	\$2,235,100
Less deductions of 25%		<u>558,775</u>
Net advertising revenue		1,676,325
Less annual show costs (\$11,000 x 52)		<u>572,000</u>
Annual profit contribution		1,104,325

If one-and-a-half minutes of advertising were deducted for every week during the year--in order to bring the amount of advertising down to 4 minutes per half-hour--and assuming no change in average price per minute, the profit contribution of the show would be as follows:

Gross advertising receipts in 1970 :	\$2,235,100
Deduct $1\frac{1}{2}$ minutes per week for	
52 weeks--\$14,625 x 52	<u>760,500</u>
	1,474,600
Deductions of 25 percent	<u>368,650</u>
Net advertising revenue	1,105,950
Less annual show costs	<u>572,950</u>
Profit effect	533,000

American Bandstand, presented by ABC, is a 1-hour or half-hour pop record show hosted and produced by Dick Clark. ABC has a contract with Dick Clark to buy 10 half-hour shows (when the program has to be cut short due to the Saturday afternoon football games), and 36 one-hour programs at a current cost of \$17,000 per hour. Thus the total cost of the program for the season is \$697,000. In 1970 the

program grossed \$2,841,800 from 464 minutes of advertising. The average price per minute was \$6,124, and there were an average of just over 11 minutes of network commercial time per hour:

Gross advertising receipts	:	\$2,841,800
Less deductions of 25%		<u>710,450</u>
Net advertising revenue		2,131,350
Less annual show costs (41 x \$17,000)		<u>697,000</u>
Profit effect		1,434,350

Assuming no change in average price per minute, this would be the impact on profit of a 3 minute reduction of commercials:

Gross advertising receipts in 1970	:	\$2,841,800
Deduct 3 minutes per hour for 41 hours (\$6,124 x 3 x 41)		<u>753,252</u>
		2,088,548
Deductions of 25 percent (station compensation and ad agency com- mission)		<u>522,137</u>
Net advertising revenue		1,566,411
Less annual show costs		<u>697,000</u>
Profit effect		869,411

It might be interesting to look at the profit effect of the only regularly scheduled prime-time program aimed directly at children. Wonderful World of Disney, presented by NBC from 7:30 to 8:30 p.m. on Sunday. NBC buys 48 hours of programming from Disney, 20 originals at \$250,000 each, and 28 re-runs at between \$30,000 and \$40,000 each. The total contract, therefore, is in the region of \$6,120,000 for the year. In 1970 Wonderful World of Disney grossed \$15,909,700 in revenue from 325 minutes of commercials. The average price per minute was \$48,952 and the program carried an average of 6 minutes of advertising--in prime-time the networks usually carry 6 minutes of

network advertising per hour, or 7 minutes in series. The profit contribution of this program in 1970 was:

Gross advertising receipts	:	\$15,909,700
*Less deductions of 33%		<u>5,303,233</u>
Net advertising revenue	:	10,606,467
Less annual show costs		<u>6,120,000</u>
Profit effect		4,484,467

*Higher deductions because the program is in prime-time when station compensation increases.

While it is generally agreed that the networks can make money on cartoon shows, which have a broad appeal among 2 to 12 year olds, the networks fear that they might lose money if they attempt to diversify programming or attempt to program for a specific age group, say the 6 to 9 year old, or the 12 to 14 year olds. This clearly relates to the point made earlier that ratings determine revenues, and it might be helpful to take a look at the latest census data dealing with the number of television households and the number of children under 12 in such households:

Estimates of U.S. Households

September 1, 1971

	<u>Total Households</u>		<u>TV Households</u>		<u>TV Households</u>
	<u>000's</u>	<u>%</u>	<u>000's</u>	<u>%</u>	<u>in % of Total</u>
					<u>Households</u>
<u>Total U.S.</u>	64,850	100	62,100	100	96
<u>Household Size</u>					
1-2			28,090	45	
3-4			20,870	34	
5 or more			13,140	21	
<u>Presence of</u>					
<u>Non-Adult</u>					
None under 18			32,260	52	
Any under 18			29,840	48	
Any under 12			22,990	37	
Any under 6			14,530	23	
Any aged 6-11			15,320	25	
Any aged 12-17			15,400	25	

The economics of network television tend to lead a network into a programming policy of trying to attract the maximum number of people to as much of the programming as possible. Naturally there are certain exceptions like news and public affairs which the networks and the licensees feel that they must program in order to fulfill their public interest obligations. The table above shows that there is a child under 6 in 1 in 4 television households which means that if a network decides to program for pre-schoolers the audience is fragmented. One in 3 television households have one or more children under the age of 12, so far from being a desirable audience commercially the children tend to get their programs on Saturday and Sunday mornings, when adults don't want to watch anyway, with some all-family shows in the early evening, when parents will usually allow their children to watch for awhile before going to bed. By programming for all the family, a network hopes to keep the parents as viewers once the children have gone to bed.

Because children are not regarded as consumers in the full sense of the term--that is having the financial power to buy a good that is advertised, many leading companies prefer not to advertise to children at all. Those that do advertise do so in the belief that the child has some influence over the buying habits of his or her parents. Because children are not regarded as full consumers, advertising space in children's television is sold cheaply--from \$1.25 to \$2 per thousand homes, against a price of \$3.50 to \$4.50 per thousand in prime-time television, and up to \$7 for a national football game.

All of these factors militate against diversified programming for children and the result has been the weekend diet of cartoon material

The Ratings

A glance at some of this season's program ratings for network children's shows will tell us what programs children are watching:

FALL 1971 THREE NETWORK SATURDAY DAYTIME SCHEDULE

	NBC	CBS	ABC
8:00 AM	DR. DOOLITTLE	BUGS BUNNY	JERRY LEWIS
8:30 AM	RATING: 1.8 SHARE: 24 WOODY WOODPECKER	RATING: 4.4 SHARE: 46 SCOOBY DOO	RATING: 1.6 SHARE: 21 ROAD RUNNER
9:00 AM	RATING: 2.1 SHARE: 17 DEPUTY DAWG	RATING: 8.0 SHARE: 55 GLOBETROTTERS	RATING: 3.2 SHARE: 25 FUNKY PHANTOM
9:30 AM	RATING: 3.6 SHARE: 19 PINK PANTHER	RATING: 8.6 SHARE: 43 HELP!	RATING: 6.1 SHARE: 32 JACKSON 5
10:00 AM	RATING: 6.3 SHARE: 26 BARRIER REEF	RATING: 9.0 SHARE: 37 PEBBLES AND BAM BAM	RATING: 8.2 SHARE: 34 BEWITCHED
10:30 AM	RATING: 4.0 SHARE: 15 TAKE A GIANT STEP	RATING: 13.2 SHARE: 49 ARCHIE	RATING: 2.3 SHARE: 9 LIDSVILLE
11:00 AM		RATING: 13.4 SHARE: 49 SABRINA	RATING: 9.1 SHARE: 34
11:30 AM	RATING: 2.3 SHARE: 9 THE BUGALOOS	RATING: 14 SHARE: 53 JOSIE	CURIOSITY SHOP
12:00 PM	RATING: 4.0 SHARE: 16 MR. WIZARD	RATING: 11.2 SHARE: 44 MONKEES	RATING: 6.0 SHARE: 23 JONNY QUEST
12:30 PM	RATING: 3.4 SHARE: 14 THE JETSONS	RATING: 10.8 SHARE: 41 YOU ARE THERE	RATING: 5.7 SHARE: 24 LANCELOT LINK, SECRET CHIMP HOUR
1:00 PM	RATING: 6.3 SHARE: 24 LOCAL TIME	RATING: 6.3 SHARE: 24 CBS CHILDREN'S FILM FESTIVAL	RATING: 5.3 SHARE: 22
1:30 PM		RATING: 5.7 SHARE: 21	

For the fourth quarter of 1971, the following viewing pattern emerged:

	<u>NBC</u>	<u>CBS</u>	<u>ABC</u>
10:00 a.m.	Barrier Reef Av. Share : 14	Pebbles and Bam Bam Av. Share : 35	Bewitched Av. Share : 36
10:30 a.m.	Take a Giant Step Av. Share : 12	Archie's TV Funnies Av. Share : 47	Lidsville Av. Share : 32
11:00 a.m.		Sabrina The Teenage Witch Av. Share : 54	Curiosity Shop Av. Share : 24
11:30 a.m.	The Bugaloos Av. Share : 13	Josie and the Pussycats Av. Share : 47	
12:00 p.m.	Mr. Wizard Av. Share : 15	The Monkees Av. Share : 40	Jonny Quest Av. Share : 24
12:30 p.m.	The Jetsons Av. Share : 23	You Are There Av. Share : 28	Lancelot Link, Secret Chimp Hour Av. Share : 22
1:00 p.m.	Local Time	CBS Children's Film Festival Av. Share : 28	American Bandstand Av. Share : 27

Source : Nielsen Seasonal Average Shares/Nielsen Nationals.

Two of the networks, ABC and CBS, program for children on Sunday mornings, but not competitively:

SUNDAY DAYTIME/NIELSEN NATIONAL, 9/12/71 through 10/10/71.

<u>Time</u>	<u>Program</u>	<u>ABC</u> (5-week average)			<u>CBS</u> (5-week average)		
		<u>Rating</u>	<u>Share</u>	<u>Homes</u> (000)	<u>Rating</u>	<u>Share</u>	<u>Homes</u> (000)
9:00 a.m.	Tom and Gerry				3.8	29	2,360
9:30 a.m.	Sabrina and the Goolies				4.8	26	2,980
10:00 a.m.	Red Dragon	5.0	27	3,110			
10:30 a.m.	Double-deckers	5.9	29	3,660			
11:00 a.m.	Bullwinkle	5.7	27	3,540			
11:30 a.m.	Make a Wish	5.8	27	3,600			

The tables above are a good indication of what children have been watching. One rating point equals 600,000 homes, so if a network gets a rating of 10.00 that translates to 6 million homes tuned in to that particular program. If the program is being sold at \$2 per thousand homes the advertising rate for a 1 minute commercial would be \$12,000. The share is the percentage of the homes where the television is turned on that are tuned in to your particular network. Therefore if you have a share of 55 it means that 55 percent of the homes with a set in use at that particular time are tuned in to your program.

We can see from the ratings tables that the live programs introduced this season in order to diversify the regular children's television diet of cartoons, namely Take a Giant Step on NBC and Curiosity Shop on ABC, fare badly against the cartoon competition of Archie, Sabrina, and Josie on CBS, which become the most popular programs for children along with Pebbles and Bam Bam, another CBS offering. When CBS moves to live or diversified (some would say "quality") programming at 12:30 p.m. with You Are There and CBS Children's Film Festival, both shares and ratings fall dramatically. This viewing trend has led to the belief by some network executives that children's television suffers from Gresham's Law, i.e. that bad programming drives out good programming. However, it is possible to argue that Curiosity Shop, with 3.6 million homes tuned in, and You Are There, with an even higher rating, have proved to be successful diversified and age specific programs, but some have not.

Some unprofitable diversified children's programming.

We can now take a look at how some of the diversified programming fared financially on one of the networks, NBC, which claims to be the first television network to attempt diversification in its children's schedule.

Hot Dog, a half-hour live-action and animated show presented for children on the NBC Television Network in the 1970-71, was an informational type program which asked and answered the questions why or how. For example, the program asked and answered such questions as how toothpaste got into tubes, and why a lead pencil

writes. The show featured such celebrities as Woody Allen, and a number of the Laugh-In cast; it won critical acclaim and was awarded a Peabody. However, the show was a disaster financially and never attracted sufficient viewers to attract significant advertiser support. As a result, NBC sustained a loss of \$431,000 on this program for the season:

HOT DOG

1970 - 1971 SEASON

<u>QUARTER</u>	<u>PLAYS</u>	<u>% SOLD</u>	<u>(LOSS)</u> <u>(000)</u>
1970 FALL START	3	100	(9)
1970 4TH QTR	10	97	(25)
1971 1ST QTR	11	40	(158)
1971 2ND QTR	13	58	(160)
1971 SUMMER	9	75	(79)
TOTAL SEASON	46	68	\$(431)

Total Program Cost For The Series \$697,000.

The per minute advertising rate for Hot Dog was between \$5,400 and \$5,900 in the fall of 1970, between \$4,200 and \$4,700 during the winter (first quarter of 1971), down to between \$3,200 and \$4,200 in the spring, and sinking to between \$2,600 and \$3,200 for the summer. The program never got more than a 26 percent share of the audience and sank as low as 10; its average share was around 18 to 20. Anything significantly below a 30 percent share usually loses money when the advertisers begin to switch their buying into the more

popular programs.

This season's disaster on NBC seems to be Take a Giant Step, and network executives estimate that the show will lose \$635,000 by the time the 1971-72 season ends:

TAKE A GIANT STEP

1971-72

<u>QUARTER</u>	<u>PLAYS</u>	<u>% SOLD</u>	<u>(LOSS)</u> <u>(000)</u>
1971 - FALL START	3	68	9
1971 - 4TH QTR	12	86	77
1972 - 1ST QTR	9	60	(250)
1972 - 2ND QTR	11	80	(337)
1972 - SUMMER	5	78	(134)
TOTAL SEASON	40	76	\$(635)

Total Program Cost For the Series:	Originals	\$1,070,000
	Repeats	<u>10,000</u>
		\$1,080,000

In addition to the series program cost, the network spent \$69,000 in development costs.

In addition to these losses, NBC has been losing money in recent years on its Saturday morning children's specials:

NBC CHILDREN'S SPECIALS

<u>1969-70</u>	<u># Plays</u>	<u>Program Costs (000)</u>	<u>Profit/(Loss) (000)</u>
CHRISTOPER DISCOVERS AMERICA	1		
CHILDREN'S FESTIVAL AT LINCOLN CENTER	1		
THE BOSTON SPY PARTY	1		
HOT DOG	1		
THE INSIDE WORLD OF OUTER SPACE	1		
WILDERNESS ROAD	1		
A KID'S EYE VIEW OF WASHINGTON	1		
TOTAL	7	\$525	\$(413)
 <u>1970-71</u>			
FOR THE LOVE OF FRED	2		
THE WONDERFUL WORLD OF JONATHAN WINTERS	2		
PETS ALLOWED	1		
RAPPING WITH BRINKLEY	1		
SUPER PLASTIC ELASTIC GOGGLES	1		
CIRCUSTOWN	1		
A DAY WITH BILL COSBY	2		
THE SOUNDS OF CHILDREN	1		
TOTAL	11	\$584	\$(63)

At first glance these losses sound horrendous, and should perhaps be placed in some kind of broader context. Diversified and age specific programs are not always financial disasters, as can be seen from the ratings of such programs as Curiosity Shop, You Are There, and CBS Children's Film Festival. Also, if age specific and diversified programs are placed into the cartoon programming schedule for children, then it is possible to carry some programming that breaks even, or loses money, because most cartoons make a high return on investment. In addition, there has been no long-term commitment so far to diversified and age specific programming by any of the commercial networks. Many programs take some time to win public acceptance, and other programs die because of the strong cartoon competition placed against them at a particular time period. All of these factors should be considered before reaching easy and general conclusions about the costs of age specific and diversified programs.

This problem of the economics of age specific and diversified programming for children will be examined again in the section of the report dealing with the economic implications of the ACT petition.

A new program for pre-schoolers

Beginning in February, 1972, NBC introduced a new half-hour program for pre-schoolers entitled Watch Your Child/The Me Too Show, to be shown Monday through Friday. Gross costs for the first 29

weeks of programs come to \$1,152,500, broken down as follows:

Original run--20 weeks at \$52,000 a week =	\$1,040,000
Repeat run--9 weeks at \$12,500 a week	<u>112,500</u>
Total cost	1,152,500

This new project is being organized as a special service to the NBC Television Network, and each program will be fed on network lines at 1 p.m. to 1:30 p.m. in order that each station can tape the program for local broadcast at a suitable time. NBC is underwriting the costs of production and is also taking on the job of distributing the programs nationally to owned stations and all affiliates (assuming that they agree to take the program). Each of the NBC owned stations is committed to take the program, but affiliate response has been slow--by Friday, February 11, 1972, just 3 days before the first airing of the show, only 19 stations had agreed to program it : Five NBC Owned Stations, WNBC, New York; WMAQ, Chicago; KNBC, Los Angeles; WRC, Washington, D.C.; WKYC, Cleveland; and 14 affiliates in Hartford, Connecticut; Philadelphia; Pittsburgh; Providence, Rhode Island; Wheeling, West Virginia; Fort Wayne, Indiana; Lexington, Kentucky; Jackson, Michigan; Clarksburg, West Virginia; North Platte, Nebraska; Parkersburg, Virginia; Paducah, Kentucky; Tucson, Arizona; Fort Worth, Texas. Unfortunately, this program seems doomed since it is not offered during network time.

The fee for this children's program is 30 percent of the station's network hourly rate for two-and-a-half hours of programming a week, which is thought to be modest. If half the network affiliates agree to carry the program--about 100 stations-- then the network will cover its costs. If not, NBC will lose, and the amount will

depend on the degree of acceptance. The network will not sell commercials in the show, but the affiliates can sell 4 minutes of commercials--2 at the beginning of the program and 2 at the end.

Profits from children's programming.

Having gone into some depth in this section to explain the possible profits and possible losses to networks in the area of children's programming, it might be useful to sum up by discussing, in very general terms, the overall profits made by the networks in 1970 in the area of children's programming, and to attempt to assess the overall impact of a reduction of commercial time in such programming.

The only network to make a filing on the amount spent on children's programming in a given season was ABC. This network, in its filing on the ACT petition, claimed that it would spend \$7 million on weekend children's programming in the 1971-72 season. Because BAR provides the estimated gross revenue of weekend children's television shows, it is possible to generate the overall profit effect of children's programming on ABC, a company that has lost money on its network operations for the last 10 years, although it has been profitable on its overall broadcast operations because of the highly profitable 5 owned and operated television stations. Excluding children's specials, ABC's gross revenues from children's weekend programming in 1970 amounted to \$18,974,800. After agency commission and station compensation, the net revenues came to an estimated \$14,231,100. If program expenses in that year are taken at ABC's admitted current level of \$7 million, then the network made a profit contribution of

\$7,231,100 in 1970.

However, when these figures were put to ABC business affairs executives, they said that they did not include the program costs for American Bandstand and Make a Wish in the filing to the FCC, but even with these included a considerable profit was still made by ABC from weekend children's programming in 1970, even though the network as a whole lost money. ABC executives did, incidentally, admit that the network made a profit on children's programming.

In 1970 ABC carried 3,411 minutes of advertising at an average price of \$5,562 per minute. If this commercial content were reduced by one-quarter, or 852 minutes, and assuming no change in the price per minute of commercial time, the gross advertising reduction to ABC would amount to \$4,738,824, or a net reduction of \$3,554,118 (making allowances for station compensation and advertising agency commission), leaving the network with a profit contribution in the region of \$3.5 million.

Making an estimate of CBS's weekend programming costs for children should not be difficult since it is possible to use ABC's costs as a guideline. Because CBS claims to use more expensive animation techniques than ABC, an estimate of between \$8 million and \$8,500,000 might be what CBS pays for its weekend programming for children. Again this excludes specials and it also excludes Captain Kangaroo, which has been examined separately. In 1970, CBS grossed \$33,452,800 from 4,105 minutes of advertising, an average price of \$8,149 per minute. After deductions, CBS netted

\$25,089,600. When program expenses are taken away from this figure, the network is left with a handsome profit contribution of over \$16.5 million--perhaps a far higher rate of profit than the network makes on other types of programming.

Again assuming a 25 percent reduction in commercial content, and further assuming no change in average price, CBS would lose 1,026 minutes of advertising for a gross reduction of \$8,360,874, which would result in a net reduction of \$6,270,656. But this would not impair the network's overall profitability in the area of children's programming because CBS would be left with an overall profit contribution of \$10 million.

NBC's weekend children's programming probably costs around \$7,000,000 but NBC's gross advertising revenues, again excluding specials, amounted to \$14,269,300. After deduction for agency commission and station compensation, estimated net advertising revenues of \$10,701,975 remained. Consequently, a profit effect of just over \$3.7 million was returned by NBC's weekend children's programming in 1970, but after administrative expenses the overall profit was probably very small. NBC executives admitted that the network made a small profit from children's programming in 1970, but claim that profits have fallen since because of losses with programs like Hot Dog and Take a Giant Step, and some of the Saturday morning children's specials. In 1970, NBC's average minute on Saturday morning cost \$5,777, and the network carried a total of 2,470 minutes of advertising. If this were reduced by a quarter, the network would lose a total of 617 minutes of advertising at a

gross cost to the network of \$3,564,409, or \$2,673,307 after deductions. So NBC's profit would be reduced to \$1 million, assuming that price per commercial minute remained the same and there was no change in its relative competitive position. With administrative costs the network would barely break even.

Throughout the computations above, an unrealistic assumption has been made--that is, that price per minute would remain the same if the amount of commercial content in children's programming were reduced. As we have seen, relatively few advertisers account for most of the advertising revenue derived from children's programming, and these advertisers have a fairly inelastic--that is a reasonably fixed--demand for the available commercial positions in children's programming. For example, the top 3 advertisers--Kellogg, Mattel, and General Mills--account for 30 percent of the total revenue; the top 8 advertisers account for 50 percent of the revenue; and the top 23 advertisers account for 75 percent of the revenue derived from children's programming. Consequently, in an oligopolistic situation where relatively few advertisers are competing for time offered by 3 suppliers, prices will increase if a situation of scarcity is created. Ratings still determine revenues, and the leader of the ratings race will continue to attract more advertising revenue. There might be some benefits for the less popular programs, like Take a Giant Step: those advertisers who are forced out of the most popular shows when prices go up as the number of commercial minutes is reduced might elect to buy into low rated programs rather than be forced out of children's network television completely.

CBS, the most profitable network so far as children's programming is concerned, has expressed doubts about the plan to reduce the non-programming content in children's television from 16 to 12 minutes from January 1, 1973. Of these 12 minutes, $8\frac{1}{2}$ will be sold as network commercials, the other $3\frac{1}{2}$ will be divided between affiliate sold commercials, station ID's, and billboards. CBS's main fear seems to be that the two opposition networks, ABC and NBC, will pick up some of the revenue that CBS feels it is going to lose. Alternatively, CBS feels that unless the commercial time reduction is applied across the board, and not just at weekends, there will be some revenue seepage out of network children's television into spot children's television, and particularly into the hands of the independents, whom, many network executives feel, make a high profit out of old and often tasteless cartoon shows that they program in the mid to late afternoons.

Although this is a distinct possibility, the commercial viability of children's programming looks secure after the reduction in commercial time is put into effect January 1, 1973, when the networks will be selling $8\frac{1}{2}$ commercial minutes an hour instead of the current 12, especially since for 2 of the 3 networks children's television provides a particularly high rate of return.

A possible second stage is to reduce the amount of commercial content in all children's programming, Sunday through Saturday, that is if the definitional problem of what exactly is children's programming can be sorted out.

Finally, regarding the reduction of commercial time in weekend children's programming it seems probable that the networks will suffer no appreciable loss of revenue in the short to medium term.

There might be a fallback when the rule becomes effective, but this will be quickly made up as advertising prices rise to a new level. Most major advertisers will remain in children's television for the simple reason that they have no other place where they can advertise as cheaply and as effectively. Furthermore, if the networks are to really minimize the effects of this self-imposed reduction of commercial time, they have got to sell children's programming more effectively and persuasively.

5. THE ECONOMIC IMPLICATIONS TO THE NETWORKS OF THE ACT PETITION

The petition from Action for Children's Television specifically states: (a) That there shall be no sponsorship and no commercials on children's programs; and (b) that each station shall provide daily programming for children, and in no case shall this be less than 14 hours a week as part of its public service requirement. In addition, the petition further states that programming shall be divided into three child viewing groups: aged 2-5; aged 6-9; and aged 10-12.

Amount of children's programming.

Using the current television season, and counting only those children's programs presented by the networks, ABC presents 6 hours of children's programs on Saturday and 2 hours on Sunday; CBS presents 6 hours of children's programs on Saturday, 1 hour on Sunday, and 5 hours Monday through Friday; NBC presents 5 hours of children's television on Saturday, 1 hour on Sunday (Wonderful World of Disney), and 2½ hours during the week. These are

regularly scheduled programs and exclude specials and occasional children's programs. Therefore the bulk of regularly scheduled network children's television comes from CBS with a total of 12 hours a week, followed by NBC with 8½ hours, and ABC with 8 hours. To ask all 3 networks to increase their programming to 14 hours a week would require additional annual expenditure of something like \$2.5 million for CBS; \$4.3 million for NBC; and \$5 million for ABC. This assumes that the new programming would be original and not merely re-runs of old cartoons.

For each and every station, both independents and affiliates, additional programming would involve them in additional expenditure with little chance to recoup programming expenses, since the current market situation in weekday children's television does not make economic sense if all stations are competing for the same audience at the same time periods. A system has developed whereby one station in one market becomes known as the "children's station" by programming cartoons in the afternoons, and often in the mornings. Stations that program for children are often the independents--WPIX in New York, and WTTG in Washington, D.C.--and these stations often make a handsome profit from programming to children--programming that consists mostly of cartoons. Stations like WPIX and WTTG program more than 14 hours a week to children, although ACT would hardly approve of the program content because it lacks diversity and probably represents what they consider to be the worst type of television.

Although the ACT petition's request for 14 hours of programming per week from each station would have an immediate and costly impact, it must again be stressed that children's programming can be a long-term investment in the sense that the same programs--like Sesame Street and The Electric Company for example--can be shown many times as the child population is renewed, and thus costs can be amortized over the long-term. Disney proved that an investment in so-called quality films for children had a long-term payoff because many of his early films make a handsome profit every time they are released on the cinema circuit. It is for this reason that the Disney Company refuses to sell the rights to its films to the networks, all of whom would be only too interested in buying them. Disney's movie executives figure that their primary audience turns over every 7 years; as each crop of children grows up, a new one is ripe for the same movies.

Loss of revenue

If there were no sponsorship of children's programs whatsoever it would result in a serious financial loss to all 3 networks. In 1970, as we have seen, the 3 networks earned between them gross weekend revenues of almost \$75 million from children's programming--or \$56,250,000 net. If this amount of money were wiped out, the networks would have serious problems in recouping. The only way they could do this would be to increase the prices in prime-time and daytime television in order to sustain the losses in children's television, or alternatively drop children's programming completely. Unlike the ban on cigarette advertising, a ban on

commercials in 14 hours of children's programming every week would be a total loss of advertising time, since the commercial minutes available in children's television would be taken away from the networks completely, whereas in the case of cigarette advertising one source of revenue was taken away but the supply of commercial minutes was not reduced--in other words, the time previously sold to cigarette advertisers could be (and was) sold to other buyers.

Underwriting and Institutional Advertising

Two alternatives to the commercialism that currently exists in children's television are: 1. the possibility of underwriting the costs of children's television; and, 2. only allowing image or institutional advertising (not advertising that aims to sell a product) in children's programs.

If underwriting the costs of children's programs were to be encouraged, then presumably the big U.S. Corporations would be directly involved. Any companies wishing to reduce the commercialism in children's programming would help support the costs of such programming in return for a credit that would simply say: "This program has been brought to you with the help of grants from the following companies and foundations..." Although underwriting is part of an increasing trend in broadcasting, the trend has not reached the stage where it promises to reduce the amount of advertising aimed at children.

Currently, a very small percentage of any large company's total advertising budget is devoted to the second alternative, institutional advertising. One firm that spends all of its

advertising on institutional advertising is Health Tex Inc., the clothing manufacturer, of New York City. This company spends \$1 million a year in promoting its corporate image, and is one of the very few such business concerns that does this. The company's position is that it wishes to engender in the minds of parents a feeling that Health Tex is a responsible manufacturer of pre-schoolers clothing. Accordingly, it sponsored a children's special, Babar Comes to America, in prime-time on the NBC Television Network on Sunday, February 27, 1972, by spending \$250,000 on advertising a moral theme. For example, one ad asked and answered the question: Why do we go to war? It ended by saying that it would be nice if we were all friendly towards each other. Although image advertising, like underwriting, is part of an increasing trend, normally no more than 5 percent of a company's total advertising budget is devoted to the promotion of a company image. Because of this, and lacking any encouragement, institutional advertising and/or underwriting, seem to provide no easy or simple answers to the problem of paying for children's television programs that have fewer commercials or are commercial-free.

Age specific programming

In addition to asking the networks and other television companies to give up a total of 112 minutes of advertising per week (this assumes that each hour of children's programming carries only 8 minutes per hour and currently the figure is much higher than this), ACT also asks that such programming be age specific. This means that children's programming would no longer be attractive as lead-in programming because the child audience would be fragmented. As we have seen, the latest U.S Census shows that 37 percent of the total TV households in this country have children under the age of 12; and 23 percent of the TV households have children under the age of 6. The economics of

commercial broadcasting system are geared to a mass audience-- advertising revenues increase as more viewers tune-in, so any attempt to fragment an audience would have a serious impact on revenues, say the networks. One of the main reasons why much children's television lacks diversity, according to network executives, is because for any program to be economically viable it must attract viewers from 2-12 and treat them as a homogeneous group. In fact, children are a heterogeneous group. However, in a commercial system where numbers of viewers have to be supplied or sold to advertisers, the networks or program suppliers tend to maximize profits by lumping together several different audiences in an attempt to get a mass audience that is sufficiently attractive to advertisers that all commercial time is fully sold.

In order to ascertain what kind of financial impact age specific programming would have, it is possible to make certain assumptions and to calculate the revenue from programs directed towards fragmented audiences.

Assumptions:

1. That the network will provide age specific programs to the 3 age groups outlined in the ACT petition and that such age specific programming will not be in direct competition, for example ABC's programming for pre-schoolers will not be shown at the same time that CBS's and NBC's programming for this age group.

2. That such age specific programming will have fully sold commercial sponsorship of 6 minutes per hour.

3. That the bulk of children's programming from the networks continues to be shown on Saturday morning when a large number of children are available, and that the networks continue to have roughly the same audience rankings that they did in the 1971-72 season, i.e. CBS first, ABC second, NBC third.

4. That because age specific programs seem to be less popular than cartoons, there will be some audience loss--at least in the short run.

Unfortunately the above assumptions do not completely describe the real world. For example, many families have several children whose ages range from 2 to 12, and usually the older children dictate what the younger children will watch. This fact poses a threat to any age specific programming directed to pre-schoolers outside of school hours when an older brother or sister can demand that all the children watch something else. However, we have seen that Captain Kangaroo, a program for pre-schoolers, did make money for the CBS Television Network in 1970.

For the sake of the following analysis, children's Saturday programming is assumed to be the time period from 8 a.m. to 2 p.m.-- a 6-hour period which is an extension of the current time schedule devoted to children's programming. Because of the assumption that there would be no competition between the networks for age

specific audiences, this reduces seepage to a minimum:

	<u>ABC</u>	<u>CBS</u>	<u>NBC</u>
8:00 a.m.	Pre-school program Est. rating : 1.5	6-9 program Est. rating : 4.0	10-12 program Est. rating : 1.5
8:30 a.m.	Pre-school Est. rating : 3.0	6-9 Est. rating : 7.0	10-12 Est. rating : 2.0
9:00 a.m.	Pre-school Est. rating : 5.0	6-9 Est. rating : 8.0	10-12 Est. rating : 3.0
9:30 a.m.	Pre-school Est. rating : 7.0	6-9 Est. rating : 9.0	10-12 Est. rating : 5.0
10:00 a.m.	6-9 Est. rating : 2.0	10-12 Est. rating : 10.0	Pre-school Est. rating : 3.0
10:30 a.m.	6-9 Est. rating : 6.0	10-12 Est. rating : 10.0	Pre-school Est. rating : 3.0
11:00 a.m.	6-9 Est. rating : 6.0	10-12 Est. rating : 10.0	Pre-school Est. rating : 3.0
11:30 a.m.	6-9 Est. rating : 5.0	10-12 Est. rating : 11.0	Pre-school Est. rating : 3.0
12 noon	10-12 Est. rating : 5.0	Pre-school Est. rating : 6.0	6-9 Est. rating : 4.0
12:30 p.m.	10-12 Est. rating : 5.0	Pre-school Est. rating : 5.0	6-9 Est. rating : 5.0
1:00 p.m.	10-12 Est. rating : 5.0	Pre-school Est. rating : 5.0	6-9 Est. rating : 5.0
1:30 p.m.	10-12 Est. rating : 5.0	Pre-school Est. rating : 5.0	6-9 Est. rating : 5.0

The average ratings for the above are : CBS 7.5; ABC 4.6; NBC 3.5.

We will now further assume that the above programs are sold at a cost of \$2 per thousand homes. We have already seen that a rating of 1.0 equals 600,000 homes, so the above average ratings equate to the following: CBS 4,500,000 homes; ABC 2,760,000 homes; NBC 2,100,000 homes. At a cost of \$2 per thousand homes, the average per minute advertising rate for the 3 networks would be: CBS \$9,000;

ABC \$5,520; NBC \$4,200. The gross advertising receipts for the 3 networks for an average Saturday morning would be: Average per minute advertising rate X number of minutes per hour X number of hours of programming. This would result in the following for CBS: $\$9,000 \times 6 \times 6 = \$324,000$ gross receipts for each Saturday morning, or \$16,848,000 for the year. For ABC: $\$5,520 \times 6 \times 6 = \$198,720$ gross for each Saturday morning, or \$10,333,440 for the year. For NBC: $\$4,200 \times 6 \times 6 = \$151,200$ gross for each Saturday morning, or \$7,862,400 for the year. After payments for station compensation and advertising agency commission, these figures would net out at: CBS \$12,636,000; ABC \$7,750,080; NBC \$6,000,000.

Since the above assumptions are reasonably conservative, in all probability CBS and ABC would make a profit, though NBC would lose, assuming that each network spent around \$7 million a year, or less, on Saturday morning programming. However, 20 percent of the total amount paid in station compensation, is paid to the owned and operated television stations that belong to the same companies as do the networks, so even for NBC the loss would be minimal. If there were more than 6 minutes of commercials sold in age specific programming, and if such commercial minutes were sold at a cost of above \$2 per thousand homes, then all 3 networks could then expect to make a fair return on investment in children's programming. Again, if such age specific programming were divided into 2 groups as distinct from 3 groups, say from 2 to 7 and from 8 to 12, then an even higher return could be expected.

The purpose of this discussion has been to show that it might be possible to program to age specific groups and also make money. In addition, it might behoove the networks and other broadcasting

organizations to attempt to convince advertisers that they ought to support such age specific programming so as to expose children to new ideas and to new experiences.

Currently Public Broadcasting seems to be attempting to fill the breach caused by commercial broadcasting's lack of diversity in children's programming by airing such programs as Mister Roger's Neighborhood for young children, Sesame Street for pre-schoolers, and The Electric Company for the 6-9 year olds. Altogether Public Television provides 2 hours of programming for children Monday through Friday (ignoring repeats) for a total of 10 hours. There is also a $\frac{1}{2}$ hour program Zoom, aired on Sundays at 7 p.m.

SUMMARY

This report has concentrated on analysing the situation as it exists, or as it is seen to exist in the minds of network executives. Later in this presentation a number of alternative actions will be explored and the economic implications of those alternatives will be analysed.

It should be said that it has never been contended that every segment of network programming should be profitable in and of itself; for example, many documentary programs lose money for the networks. Maybe some children's programming ought to be treated in this way. The networks have always been charged with a responsibility to present a diversified programming schedule, within the limitations of overall commercial viability. The networks claim that they need a fair high rate of return on their capital if they are to be adventurous or experimental in their programming, especially in the areas of news and minority appeal programming (and perhaps age-specific children's programming is minority appeal programming). Traditionally profits from programs such as The Tonight Show, with host Johnny Carson, have been used to finance non-profitable programming, especially some of the ambitious coverage of moonshots and other costly public affairs specials that attract relatively little or no advertising revenue. In 1970, The Tonight Show earned gross advertising revenue of \$31,451,600 from its 2,194 minutes of network advertising. After deductions of 15 percent agency commission and around 10 percent station compensation, the program

earned around \$23,625,000 net. After the program costs are taken from that figure--the show budget was around \$100,000 a week in 1970, or \$5.2 million for the year--The Tonight Show made a profit contribution to the NBC Television Network of around \$18.5 million. This situation is repeated with other popular prime-time and daytime shows. Consequently, with shows that attract big audiences, there are opportunities to make large windfall profits. This also explains why television companies are continually tempted to satisfy mostly a mass appeal, rather than direct programs towards minorities or segmented audiences.

Finally, we should take a look at the financial rewards of the 3 networks by looking at their financial results, and also the results of their owned and operated stations. Using the FCC's Broadcast Financial Data for the last few years, the reported pre-tax profits of the networks and their owned stations can be traced from 1966, when revenues and profits reached a new peak:

1966 : Total pre-tax profits \$187 million; the networks taken together made pre-tax profits of \$79 million, and the owned stations made pre-tax profits of \$110 million.

1967 : Total pre-tax profits \$163 million; \$56 million to the networks, and \$107 million to the owned station.

1968 : Total pre-tax profits \$179 million; \$56 million to the networks, and \$135 million for the owned stations.

1969 : Total pre-tax profits up to an all-time record of \$226 million; \$93 million to the networks, and \$133 million for the owned stations.

1970 : Total pre-tax profits down to \$167.4 million; \$50.1 million for the networks, and \$117.3 million to the owned stations.

The ABC Television Network has been losing money quite heavily since 1963, but this has been made up by profits from its 5 owned and operated stations, and the network claims to have "turned the corner" financially in 1971.

List of people interviewed

The following people have been interviewed in connection with the economic analysis of children's television:

Action for Children's Television

Peggy Charren
Evelyn Sarson

Boston University

Dr. Earle Barcus
Dr. Hy Goldin

Harvard Business School

Dr. Scott Ward

Columbia University Graduate School of Business

Dr. Donald Lehmann

Children's Television Workshop

Dave Connell, Executive Producer, formerly CBS Producer of
Captain Kangaroo

Tom Kennedy, Vice President, Finance
Richard DeFelice, Director, Financial Planning
Dr. Edward L. Palmer, Vice President, Research

ABC Broadcast Group

James Duffy, President, ABC TV Network
Mark Cohen, Vice President, Planning/Business Analysis, ABC
Michael Eisner, Vice President, Daytime Programming, ABC

CBS Broadcast Group

Dr. Frank Stanton, Vice Chairman of the Board
Jack Schneider, President, CBS Broadcast Division
Robert Wood, President, CBS TV Network

Bill Tankersley, former Vice President, Rules and Standards
Oscar Katz, Vice President, Programming
Allen Ducovny, Director, Children's Programming
Dr. David Blank, Vice President, Economics and Research
David Wilkovsky, CBS Economist
Martin Ewenstein, CBS Economist
Norman Morris, CBS News and author of book on children's television
Richard Jencks, CBS, Washington, D.C.
Sarge Carleton, CBS, Washington, D.C.

NBC

Julian Goodman, President, NBC, Inc.
Tom Ervin, Executive Vice President
Don Durgin, President, NBC TV Network
Corrie Dunham, Vice President, Legal Services
Larry White, Vice President, East Coast Programming
Don Carswell, Vice President, NBC Business Affairs
Bill Dannhauser, Director, Business Affairs
Jerry Wexler, Director, Sales Pricing
Mike Weinblatt, Vice President, Talent and Program Administration
George Heinemann, Vice President, Children's Programming
Howard Monderer, NBC, Washington, D.C.

NAB

Stockton Helffrich, Director, NAB Code Authority
Jerome Lansner, Assistant Director

Television Information Office

Roy Danish

Federal Trade Commission

Dr. James Meehan, Economist

Broadcast Advertisers Reports

Pro Sherman, Vice President

National Institute of Mental Health

Dr. Eli Rubinstein and others

Office of Child Development, HEW

Lillian Ambrosino

Community Relations Service, Department of Justice

Mike Hernandez

Television Stations

Leavitt Pope, Vice President, WPIX-TV, New York City
Ray Hubbard, Vice President, Programming and Production, WTOP, Wash., D.C.
Daniel Gold, General Manager, WTOP-TV, Washington, D.C.
G. Richard Shafto, Ex-President, Cosmos Broadcasting Corporation
Harry L. Francis, Vice President, Meredith Broadcasting

Romper Room Enterprises

John H. Claster, Vice President

Advertising Agencies and Advertisers in Children's TV Shows

Al Fields, Vice President of Merchandising, Advertising, and Promotion,
Health-Tex Inc.
Jack Jones, Senior Vice President, Marketing, Topper Corporation
Seymour Banks, Vice President, Leo Burnett Inc.
Steve Campbell, Vice President, General Foods
Arch Knowlton, Director, Media Services, General Foods
Frank Charlton, General Foods Lawyer
Richard A. Aszling Vice President, Public Relations/Public Affairs
General Foods
Vernon Kanner, Vice President, Benton and Bowles
Les Towne, Vice President, Helfgott and Partners
Donald B. Miller, Chairman of the Board, Rumrill-Hoyt Inc.
Joseph M. White, M.D., Miles Laboratories

Newsweek

Lee Weston, Assistant to the Publisher

Grocery Manufacturers of America

Bart O'Hara
Charles Saffron

Toy Manufacturers Association

Aaron Locker

Communications Lawyers

Vic Ferrall, of Koteen, Burt
Bruce McDonald, of Kirkland, Ellis
Erwin Krasnow, of Kirkland, Ellis
Kenneth Cox, of Haley, Bader and Potts